

Message Text

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ACTION EUR-25

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C O R R E C T E D C O P Y - TEXT LAST LINE OMITTED

E.O. 11652: N/A

TAGS: ENRG ETRD EFIN UR COMECON

SUBJ: REPORTED CEMA INTERNATIONAL INVESTMENT BANK PLANS
FOR LARGE-SCALE BORROWING IN WESTERN MARKETS

REF: MOSCOW 1167; MOSCOW 2922

1. SUMMARY: THE CEMA INTERNATIONAL INVESTMENT BANK (IIB)
REPORTEDLY PLANS TO TRY TO BORROW MORE THAN ONE BILLION
DOLLARS IN WESTERN MONEY MARKETS THROUGH THE END OF 1975
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FOR OIL AND NATURAL GAS PIPELINE PROJECTS IN THE USSR AND

EASTERN EUROPE. IIB MAY ALSO TRY TO BORROW AN ADDITIONAL 300 MILLION DOLLARS FOR COPPER MINE DEVELOPMENT IN THE USSR. SOME OF BORROWING MAY BE DOEN DIRECTLY BT EAST EUROPEAN GOVERNMENTS. IF CARRIED OUT, THIS WOULD BE MOST EXTENSIVE CEMA-SPONSORED BORROWING PROGRAM EVER ATTEMPTED FROM WESTERN COUNTRIES. END SUMMARY.

2. ON MARCH 12 MORGAN GUARANTY TRUSST OFFICERS SCHMIDT(VICE PRESIDENT) AND STEPHEN (ASSISTANT VICE PRESIDENT) VISITING MOSCOW ON REGULAR BUSINESS TRIP, INFORMED EMBASSY OF CEMA INTERNATIONAL INVESTMENT BANK (IIB) PLANS FOR BORROWING IN WESTERN MONEY MARKETS DURING LATE 1974 AND 1975. SCHMIDT AND STEPHEN HAD TALKED AT LENGTH WITH STEFAN KOBAK, A POLSIH NATIONAL AND DEPUTY CHAIRMAN OF IIB, WHOM THEY KNOW FROM PREVIOUS VISITS TO MOSCOW.

3. ACCORDING TO KOBAK, IIB PLANS TO TRY TO BORROW ABOUT ONE BILLION DOLLARS IN WESTERN MONEY MARKETS BEGINNING LATE 1974 AND TRHOUGH END OF 1975 FOR CONSTRUCTION OF ADDITIONAL OIL AND NATURAL GAS PIPELINE IN USSR AND EAST EUROPEAN CEMA COUNTRIES. SINCE AMOUNT IS SO LARGE, KOBAK DIUBTS THAT IIB WILL BE ABLE TO BORROW ENTIRE AMOUNT ALSO. IT EXPECTS THAT HALF OR MORE MAY BE BORROWED THROUGH GUARANTEES FROM INDIVIDUAL EAST EUROPEAN CEMA COUNTRY GOVERNMENTS AND SOVIET GOVERNMENT. OTHER PORTIONS WILL BE NEGOTIATED DIRECTLY BY IIB. A CONSIDERABLE PORTION WILL BE EURODOLLAR.

4. IN ADDITION TO BORROWING FOR PIPELINES, KOBAK SAID THAT IIB ALSO PLANS TO BORROW ABOUT 300 MILLION DILLARS FOR CONSTRUCTION OF A COPPER MINING COMPLEX IN NORTHERN PART OF USSR. ALTHOUGH THIS WILL BE FIRST IIB-FINANCED PROJECT OT BE LOCATED ENTIRELY IN SOVIET TERRITORY, IT WILL, OF COURSE BENEFIT ALL CEMA COUNTRIES. KOBAK DID NOT INDICATE WHETHER

5M COMMENT: AMOUNTS MENTIONED BY KOBAK CONSTITUTE,AS FAR AS EMBASSY IS AWARE, BY FAR LARGEST AMOUNT OF BORROWING IIB OR OTHER CEMA BANK, INTERNATIONAL BANK FOR ECONOMIC COOPERATION (IBEC), HAS EVER ATTEMPTED TO OBTAIN ON WESTERN MARKETS. DEGREE OF IIB SUCCESS AND LENGTH OF TIME NEEDED TO RAISE THIS MONEY IS OPEN QUESTION. IIB CERTAINLY CANNOT EXPECT LIMITED OFFICIAL USE

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TO GET THE VERY FAVORABLE INTEREST RATES ON EURODOLLAR FUNDS WHICH IT HAS OBTAINED ON SMALLER LOANS NEGOTIATED IN RECENT YEARS (ONE-HALF TO THREE-QUARTERS OF ONE PERCENT OVER CURRENT LONDON RATE). AND IN VIEW OF SUDDEN UPSURGE OF INTERNATIONAL BORROWING BY MANY DEVELOPED COUNTRIES AND LDC'S TO PAY FUEL BILLS, OVERALL MARKETS WILL NOT BE SAME AS IIB HAS ENCOUNTERED IN PAST.

6. KOBAK DID NOT MENTION SPECIFIC NAMES OF PIPELINE PROJECTS TO BE FINANCED. ONE COULD BE NATURAL GAS PIPELINE FROM ORENBERG IN RSFSR TO EASTERN EUROPE, MENTIONED BY CEMA CHAIRMAN FADEEV AND OTHER EAST EUROPEAN SOURCES AS HIGH PRIORITY CEMA ENERGY PROJECT (REFTELS). ANOTHER COULD BE LONG-DISCUSSED ADRIA PIPELINE FROM RIJEKA AREA OF YUGOSLAV COAST NORTHWARD TO HUNGARY, CZECHOSLOVAKIA AND POSSIBLY POLAND. LATTER WOULD LESSEN EE/CEMA DEPENDENCE ON SOVIET OIL BY FACILITATING DELIVERY OF MIDDLE EAST CRUDE. OTHER PROJECTS COULD INCLUDE FURTHER EXTENSIONS FOREXISTING USSR-EAST EUROPEAN PIPELINES (DRUZHBA I AND II) OR OIL AND NATURAL GAS LINES PLANNED FOR NEW DEVELOPMENTS IN SIBERIA.

7. COPPER PROJECT MENTIONED COULD BE DEVELOPMENT OF UDOKAN DEPOSITS IN EASTERN SIBERIA OR COPPER-NICKEL DEPOSITS NEAR NORILSK IN FAR NORTHERN PART OF RSFSR NEAR YENISEI RIVER.

8. EMBASSY OFFICER OBTAINED SOME CONFIRMATION OF IIB BORROWING PLANS DURING CONVERSATION WITH ECONOMIC OFFICERS OF POLISH EMBASSY MOSCOW ON MARCH 13. IN RESPONSE TO MENTION OF REPORTS THAT IIB WOULD BE BORROWING MORE THAN ONE BILLION DOLLARS DURING 1975, POLES CONFIRMED THAT THIS IS CORRECT BUT DECLINED TO DISCUSS DETAILS.

IIB HOPES TO BORROW ALL OF FUNDS FOR THIS PROJECT UNDER ITS OWN NAME
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